OBSERVATIONS

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The Law of Unintended Consequences
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government intervention in the economy and the markets

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"I'm from the government and I'm here to help"

Whenever we hear these words, the advice from the collective wisdom is to run away as fast as we can.

Some government programs have done great good and uplifted humanity. Like NASA and the national parks.

Other government programs do not harm.

Then other programs have famously and badly backfired. The results in those cases have been far worse than unintended consequences. The reults have produced the opposite to the originally intended effects. This category of worst impacts has been the unfortunate history of government intervention in the economy and the markets.

The Dot-Com Bubble

- “The Golden Age of the Speculative Bubble” began with the 16 to 19 October 1987 bursting of a bubble.
- In two days the DJIA fell 30% from 2396.20 to 1677.60
- Over the course of the preceding five years the DJIA had more than tripled in value.
- With the correction of October 1987 the Fed under Greenspan swooped in to provide enough liquidity to put a floor under the markets.
- Traders quickly figured out that, no matter how reckless the bullish speculation, the Fed would quickly ride to the rescue at the first sign of a stock market correction.
- Hence the term the ‘Greenspan Put’.
- The inevitable result was an even more massive bubble.
- The Dot-Com Bubble.
- Billions of stock market gains were wiped out, triggering a deep recession.
- Greenspan’s fear of a major stock market correction created the most dramatic stock market collapse in history.
- Greenspan came to the rescue of the stock market like a wrecking ball.

The Real Estate / Credit Bubble

- Someone had the brilliant idea that all American’s should own their own home.
- Government policies were enacted to ease credit requirements, making it much easier to buy a home.
- Greenspan had assured everyone that a housing bubble was impossible because everyone needed a place to live.
- Those were his exact words.
- Bernanke repeatedly praised the rapid growth of the sub-prime mortgage market.
- What could possibly go wrong?
- Massive bubbles in credit and real estate were inflated.
- After the initial leg down the Bernanke put was activated, and he assured everyone that everything was under control.
- But the bubble continued to burst.
- The Great Recession ensued.
- Seven million Americans lost their homes.
- Followed by the jobless recovery.
- The Fed came to the rescue of the real estate and credit market like a wrecking ball.

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The Covid-19 Equity Bubble

- When Covid-19 first began to hammer the markets we were told by the government that we would wake up one day and it would all be gone.
- Instead more and more infected Americans failed to wake up. And were gone.
- With several unprecedented actions Powell instituted the most titanic scale 'Put' attempt in recorded history.
- The stock market is once again priced for perfection.
- If anything less than perfection shows up the Fed will be forced to take even more extreme measures to keep this bubble inflated.
- And make no mistake about it. Powell owns this bubble.
- Fed actions will reveal growing fear and desperation.
- There can be to happy ending.
- Powell's fear of a serious stock market correction has created the conditions for the most dramatic drop in stock market values yet seen.
- It is not yet clear to all, but Powell has come to the rescue of the financial markets like a wrecking ball.

Drill Baby Drill Means Glut Baby Glut

- The price action in commodities suggests inflation will be extremely difficult, if not impossible, to activate.
- I blame the Fed for this.
- There is so much cash and credit looking for the slightest uptick in returns, that any time a commodity spikes higher there is an immediate tsunami of funds looking to drill more, mine more, or plant more.
- The initial price spike higher in the commodity is followed by a brutal price collapse from over-production,
- The over-capacity endures for years.
- History shows that inflation typically begins with commodities, then seeps into manufactured good, and eventually makes it way into wages.
- But since 2008 no price spike higher in a commodity has been able to persist nearly long enough to impact manufactured goods, much less wages.
- The central bank's desperate desire for inflation has made inflation impossible.
- You cannot reignite inflation with the commodity wrecking ball of deflationary over-capacity.

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A Suggested Solution

- My suggestion is a new cabinet level department.
- The Department of the Study of Unintended Consequences.
- Composed entirely of non-government experts the role of this department would be to critique all new proposed government policies.
- Especially those of the Federal Reserve.
- In this modern age there is clearly a value to having an effective central bank.
- However there is no role for a central bank whose only policy option is to act as a bubble machine for equities.
- As soon as anything bad happens.
- The long tradition of Congress kicking difficult cans down the road is also a government policy that would be aggressively critiqued by this new department.
- A wildly unlikely solution.
- Probably.